CLEVELAND PUBLIC LIBRARY
BUSINESS INFORMATION BUREAU
CORPORATION FILE

Mercantile Stores Company, Inc.

Annual Report

Twelve Months Ended

January 31st

1946

MERCANTILE STORES COMPANY, INC.

BOARD OF DIRECTORS

JOHN E. BIERWIRTH
LINDSAY BRADFORD
ASHTON HAWKINS
HAROLD W. JOCKERS
F. G. KINGSLEY
FREDERICK H. MESERVE
GERRISH H. MILLIKEN
MINOT K. MILLIKEN
ROGER MILLIKEN

OFFICERS

F. G. KINGSLEY, *Chairman of the Board*
HAROLD W. JOCKERS, *President*
A. D. CHURBUCK, *Vice-President*
W. A. JONAS, *Vice-President*
FREDERICK H. MESERVE, *Vice-President*
MORGAN A. CASEY, *Treasurer*
ASHTON HAWKINS, *Secretary*
E. F. FLANIGAN, *Controller*

Transfer Agent

BANKERS TRUST COMPANY
New York

Principal Stores Owned by

MERCANTILE STORES COMPANY, INC.

J. BACON & SONS
LOUISVILLE, KY.

THE CASTNER-KNOTT DRY GOODS CO.
NASHVILLE, TENN.

DULUTH GLASS BLOCK STORE COMPANY
DULUTH, MINN.

THE FAIR STORE COMPANY
CINCINNATI, OHIO

HENNESSY COMPANY
BUTTE, MONT.

THE JONES STORE CO.
KANSAS CITY, MO.

THE JOSLIN DRY GOODS COMPANY
DENVER, COLO.

THE LAZARUS STORE, INC.
WILKES-BARRE, PA.

THE LION DRY GOODS COMPANY
TOLEDO, OHIO

THE MacDOUGALL & SOUTHWICK COMPANY
SEATTLE, WASH.

THE McALPIN COMPANY
CINCINNATI, OHIO

MONTGOMERY FAIR CO.
MONTGOMERY, ALA.

THE PEOPLE'S STORE COMPANY
TACOMA, WASH.

ROOT DRY GOODS COMPANY
TERRE HAUTE, IND.

THOMAS C. WATKINS LIMITED
HAMILTON, ONT., CANADA

J. B. WHITE & CO.
AUGUSTA, GA.

J. B. WHITE & CO.
GREENVILLE, S. C.

MERCANTILE STORES COMPANY, INC.

AND SUBSIDIARIES

100 West 10th Street,
Wilmington, Delaware,
April 4, 1946

To the Stockholders of
Mercantile Stores Company, Inc.:

The annual report of your Company for the year ended January 31, 1946 is presented herewith on behalf of the Board of Directors. We are outlining below information on the various phases of the business.

PROFIT

The final net profit after all taxes for the current year was $1,810,901 or $1.21 per share of common stock compared with $1,779,941 or $1.18 per share of common stock for the preceding year (on a comparable basis after the 10 for 1 split-up of the common stock).

The net profit before Federal and state income taxes was $5,894,901 compared with $6,633,941 for the preceding year. The profit before income taxes was lower than the previous year as a result of substantial sums spent on repairs and other non-recurring expenses. The Company spent $2,137,526 for repairs as compared with $697,498 the previous year and $403,673 for the year before that. In addition, the Company made capital expenditures of $1,591,726 for new fixtures, buildings and building improvements during the year.

SALES

Sales for the year amounted to $74,407,149 compared with $59,668,304 for the preceding year, an increase of 24.7%. Please refer to pages 10 and 11 for records of sales and other comparative statistics for the past eight years. The sales for the Company have shown a steady growth for the last six years, and the sales for the year just closed are approximately three times the sales of eight years ago.

Sales for February and March of 1946 are substantially ahead of sales for the same period of 1945.

DIVIDENDS

In December 1945 the shares of common stock of the Company were split 10 for 1. Last year the Company paid dividends of $2.50 per share on the common stock before the split-up, or the equivalent of 25 cents per share after the split-up. The Company also paid a dividend on the preferred stock of $7.00 per share. These dividends amounted to $395,981. A quarterly dividend of 25 cents per share was paid on March 15, 1946 on the common stock after split-up.

EXPANSION

In 1944 the Company began an expansion program which was accelerated during 1945, and is still continuing.

During October 1944 the Duluth Glass Block Store, the leading department store in Duluth, Minnesota, was purchased for cash.

In October 1945 the Company opened a new department store in Greenville, South Carolina under the name of J. B. White & Co.

In the last two years we have acquired or opened 25 junior department stores featuring women's, men's and children's ready-to-wear and general dry goods. In addition to this group of stores, the Company has leased 56 smaller stores to handle major appliances and related merchandise.

During the coming year, the Company proposes to continue its policy of opening additional junior department stores and small major appliance stores as desirable locations become available. This expansion has been financed entirely out of accumulated earnings of the Company. Our experience with these smaller stores for the past year and a half has been a satisfactory one. Our buying and management facilities are such that additional units can be added with a minimum increase in general overhead expenses.

These junior department stores have been opened generally in communities adjacent to the larger stores of the Company and use the name of the established store. In this way we take advantage of good will built up over a period of years.

INVENTORY

Our inventories as of January 31, 1946 were $11,116,080 compared with $7,817,193 at the end of the previous year. A part of this increase in inventory is represented by inventories in newly opened stores. Our inventory turnover in the year just closed was 6.4 times compared with 5.9 times for the previous year.

PENSION PLAN

The Company adopted a Pension Plan in January 1946 providing for retirement pensions of our employees at normal retirement age of 65 years. All employees who have been with the organization for at least three years, who are at least 35 years of age and who receive compensation of $3,000 or more per year, are included in the Plan. Pensions on the first $3,000 of earnings are provided for by Federal Social Security laws.

Under the Company's Pension Plan, an employee will receive a pension upon retirement equivalent to ¾ of 1% of the compensation paid above $3,000 for each year of past service (the Plan became effective February 1, 1945) plus 1% of the compensation above $3,000 for each year of future service. The pension to be paid any eligible employee shall in no case be less than $240 per year nor greater than $10,000 per year. Approximately 200 officers and employees are eligible participants under the Plan. The Company pays all costs of the Plan and the initial contribution paid to the Trustee, City Bank Farmers Trust Company, for the first year was $130,000. It is estimated that approximately this same amount will be required per year for approximately the next ten years, the period over which the past service is being funded. Thereafter, the annual contribution would be less than that, other factors being equal.

VARIOUS

The ratio of current assets to current liabilities on January 31, 1946 was 2.2 to 1 compared with 2.9 to 1 for the preceding year.

The working capital of the Company amounted to $9,423,489 at January 31, 1946 compared with $9,053,092 for the preceding year. Earned surplus was increased during the year from $4,068,296 to $5,483,216.

The bonus plan which was installed in 1941 has proved to be of real and increasing value in the operation of the Company. Under the plan bonuses amounting to $1,228,730 were paid to 821 people for the current year.

The management believes that accounts receivable are in a satisfactory condition. Reserves for doubtful accounts are adequate.

The management desires to express its appreciation for the loyalty and cooperation of the Company's employees.

Respectfully submitted,

F. G. KINGSLEY,
Chairman of the Board.

MERCANTILE STO

(a Delawar

AND SUBSIDIA

CONSOLIDATED BALANC

ASSETS

Current Assets:

Cash in banks and on hand		$ 3,058,809
Accounts receivable—		
Customers—		
Regular retail terms	$2,094,024	
Installment terms, including installments maturing after one year	1,048,456	
Equity in installment accounts sold (the uncollected balances of accounts sold amounted to $78,788)	47,437	
Due from suppliers, etc.	537,152	
	$3,727,069	
Less—Reserves for doubtful accounts	754,019	2,973,050
Merchandise inventories, priced at the lower of cost or market, as determined by the retail inventory method, except for merchandise in transit which is priced at cost		11,116,080
TOTAL CURRENT ASSETS		$17,147,939

Other Assets:

U. S. Government securities deposited in escrow as guarantees of performance under leases, at cost (quoted market value, $182,239)	$ 176,454	
Post-war refund of Canadian excess profits taxes	88,000	
Miscellaneous securities, at cost or less	16,372	280,826

Fixed Assets:

Land and buildings owned, buildings on leased ground and leaseholds, and building improvements (property of a net book value of $233,684 is pledged to secure performance under a lease), at cost, less reserve for depreciation of $3,244,523	$4,857,478	
Store fixtures, etc., at cost, less reserve for depreciation of $1,712,826	2,503,525	7,361,003
Unexpired Insurance Premiums, Prepaid Rent, etc.		692,000
		$25,481,768

ES COMPANY, INC.

corporation)

RY COMPANIES

SHEET—JANUARY 31, 1946

LIABILITIES

Current Liabilities:		
Current maturities of mortgage notes payable to banks		$ 10,000
Accounts payable		3,746,431
Preferred stock dividend payable		6,419
Accrued taxes (other than Federal income), salaries, rent, etc		2,215,303
Reserve for Federal income and excess profits taxes, subject to review by U. S. Treasury Department	$4,297,692	
Less—U. S. Government tax notes and accrued interest thereon	2,551,395	1,746,297
TOTAL CURRENT LIABILITIES		$ 7,724,450
Mortgage Notes Payable to Banks, due $5,000 semiannually until June 30, 1953 when remaining balance becomes due (less current maturities shown above)		115,000
Reserve, etc.:		
Reserve for Federal income tax which may be payable in future years on gross profit deferred for Federal income tax purposes	$ 52,700	
Deferred carrying charges on installment accounts	50,828	103,528
Capital Stock and Surplus:		
Capital stock—		
Preferred stock, 7% cumulative, $100 par value, callable at $105 per share—		
Authorized and issued, 10,410 shares	$1,041,000	
Less—Held in treasury, 6,742 shares (cost, $618,217)	674,200	
Outstanding, 3,668 shares	$ 366,800	
Common stock, no par value, stated value, $3.66⅔ per share—		
Authorized and issued, 1,582,380 shares	$5,802,060	
Less—Held in treasury, 101,160 shares (cost, $200,414)	370,920	
Outstanding, 1,481,220 shares	5,431,140	
Surplus prior to February 1, 1935 (no change during year)	6,257,634	
Earned surplus since February 1, 1935	5,483,216	
(Surplus of $818,631 is restricted by reason of purchase of treasury stock until such stock is sold or canceled)		17,538,790
		$25,481,768

MERCANTILE STORES COMPANY, INC.

AND SUBSIDIARY COMPANIES

STATEMENTS OF CONSOLIDATED PROFIT AND LOSS AND EARNED SURPLUS

For the Year Ended January 31, 1946

STATEMENT OF CONSOLIDATED PROFIT AND LOSS

Net sales, including sales of leased departments		$74,407,149
Cost of goods sold, selling, operating and administrative expenses, including depreciation of $529,201 (see note)		68,747,664
Net operating profit		$ 5,659,485
Other income (net):		
Carrying charges on installment accounts, miscellaneous income, etc. (net)		244,867
		$ 5,904,352
Deduct—Interest expense		9,451
Profit before taxes based on income		$ 5,894,901
Provision for taxes based on income:		
Federal income tax	$ 884,000	
Federal excess profits tax	3,031,000	
State and Canadian taxes	169,000	4,084,000
Net profit carried to earned surplus		$ 1,810,901

NOTE: Maintenance and repairs during the fiscal year 1946 aggregated $2,137,526 as compared with $697,498 and $403,673 during the fiscal years 1945 and 1944, respectively.

EARNED SURPLUS SINCE FEBRUARY 1, 1935

Balance, January 31, 1945		$ 4,068,296
Net profit for the year ended January 31, 1946		1,810,901
		$ 5,879,197
Dividends declared:		
Preferred stock—$7.00 per share	$ 25,676	
Common stock—$2.50 per share (see note)	370,305	395,981
Balance, January 31, 1946		$ 5,483,216

NOTE: The authorized common shares of the Company were split up in December 1945 on the basis of ten shares for one, without changing the capital of the Company. The dividends shown above on the common stock are equivalent to $.25 per share on the new common stock.

AUDITORS' REPORT

To the Board of Directors,
Mercantile Stores Company, Inc.:

We have examined the consolidated balance sheet of Mercantile Stores Company, Inc. (a Delaware corporation) and subsidiary companies as at January 31, 1946, and the statements of consolidated profit and loss and earned surplus for the year ended that date. In connection therewith, we have reviewed the system of internal control and the accounting procedures of the companies and, without making a detailed audit of the transactions, have examined or tested accounting records of the companies and other supporting evidence, by methods and to the extent we deemed appropriate. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary.

In our opinion, the accompanying consolidated balance sheet and related statements of consolidated profit and loss and earned surplus present fairly the position of the companies at January 31, 1946, and the results of their operations for the year ended that date, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Arthur Andersen & Co.

New York, N. Y.,
April 2, 1946.

MERCANTILE STORES COMPANY, INC.

AND SUBSIDIARY COMPANIES

NET SALES

Eight Years Ended January 31, 1946

Year Ended January 31	*Amount*	*% Increase*
1946	$74,407,149	24.70
1945	59,668,304	18.68
1944	50,277,807	22.11
1943	41,173,113	18.08
1942	34,867,853	18.16
1941	29,509,394	6.84
1940	27,619,565	8.45
1939	*25,467,539*	*10.00**

COMPARATIVE PROFITS

Eight Years Ended January 31, 1946

Year Ended January 31	*Profit Before Income Taxes*	*Income Taxes*	*Net Profit*
1946	$5,894,901	$4,084,000	$1,810,901
1945	6,633,941	4,854,000	1,779,941
1944	4,700,875	3,276,760	1,424,115
1943	3,340,264	2,118,645	1,221,619
1942	1,912,941	812,164	1,100,776
1941	939,991	278,547	661,443
1940	274,646	72,059	202,586
1939	*486,264**	3,850	*490,114**

NET PROFIT PER SHARE OF COMMON STOCK

Eight Years Ended January 31, 1946

Year Ended January 31	*Net Profit per Share of Common Stock†*
1946	$1.21
1945	1.18
1944	.94
1943	.82
1942	.73
1941	.43
1940	.11
1939	*.36**

* Italics indicate loss or decrease.

† Per share amounts for all years are on the basis of the new common stock after the ten for one split-up during the current year.

MERCANTILE STORES COMPANY, INC.

AND SUBSIDIARY COMPANIES

DIVIDENDS PAID AND EARNED SURPLUS

Eight Years Ended January 31, 1946

Year Ended January 31	*Dividends*		*Earned Surplus (End of Year)*
	Preferred	*Common*	
1946	$25,676	$370,305	$5,483,216
1945	28,451	370,305	4,068,296
1944	36,176	368,930	2,687,111
1943	37,133	361,255	1,668,102
1942	40,187	290,444	844,871
1941	41,732	289,612	74,726
1940	42,504	.....	*255,372**
1939	46,907	.....	*415,455**

BOOK VALUE PER SHARE OF COMMON STOCK

Eight Years Ended January 31, 1946

Year Ended January 31	*Book Value per Share of Common Stock†*
1946	$11.58
1945	10.63
1944	9.69
1943	9.20
1942	8.58
1941	8.07
1940	7.85
1939	7.59

NET CURRENT ASSETS (WORKING CAPITAL) PER COMMON SHARE

Eight Years Ended January 31, 1946

Year Ended January 31	*Net Current Assets (Working Capital)*	*Net Current Assets per Share of Common Stock†*
1946	$9,423,489	$6.10
1945	9,053,092	5.85
1944	9,015,363	5.72
1943	8,442,467	5.48
1942	8,254,926	5.27
1941	6,158,589	3.83
1940	5,861,791	3.62
1939	5,891,555	3.51

* Italics indicate loss or deficit.

† Per share amounts for all years are on the basis of the new common stock after the ten for one split-up during the current year.